



Minister for Finance

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The Hon David Morris MP
Chair
Public Accounts and Estimates Committee
Parliament House, Spring Street
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Dear Mr Morris

BUDGET ESTIMATES FOR 2013-14 QUESTION ON NOTICE MINISTER FOR FINANCE PORTFOLIO

Thank you for your letter dated 20 June 2013 requesting a response to the question taken on notice during the 16 May 2013 Budget Estimates hearing for the Finance portfolio.

Please find enclosed the response to the question taken on notice.

Yours sincerely

ROBERT CLARK MP
Minister for Finance

29/7/13

FINANCE PORTFOLIO

1. With respect to the Victorian Managed Insurance Authority, please provide:

- a. Premiums collected and payouts for 2012-13; and
- b. estimated premiums collected and payouts for 2013-14.

The Victorian Managed Insurance Authority (VMIA) has provided domestic building insurance since May 2010. Domestic building insurance is described as a long-tailed insurance product, as there is a length of time faced by insurers between charging a premium and paying out the full cost of claims. Premiums are calculated across the entire liability period which spans several years. The VMIA is required to set premiums sufficient to cover its expenses, risks and long-term claim costs.

The table below provides information on the premiums collected or forecast to be collected by the VMIA during the respective years and the total value of claims paid or forecast to be paid for the corresponding period. Please note that the figures for 2013-14 are indicative only.

	Premiums collected (\$)	Claims paid (\$)
2012-13 actuals	46,110,166	15,242,688
2013-14 forecast	44,200,000	13,676,713

To illustrate the long-tailed nature of the product, for 2012-13 policies the VMIA expects to pay a total of \$31,780,000 in claims across the entire liability period. Thus a direct comparison between total claims paid and total premiums received for any given year does not necessarily provide a good guide to the relationship between the premium charged and likely claims payments in respect of a long-tailed insurance product.